

*City of Alexandria, Virginia*11  
5-22-01

## MEMORANDUM

DATE: MAY 10, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *ps*

SUBJECT: CONSIDERATION OF HOME REHABILITATION LOAN PROGRAM  
REVISIONS TO ADDRESS LEAD-BASED PAINT REQUIREMENTS

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**ISSUE:** Consideration of proposed program amendments to the Home Rehabilitation Loan Program.

**RECOMMENDATION:** That City Council approve the following changes to the Office of Housing's Home Rehabilitation Loan Program:

- 1) Grant the City Manager the authority to approve loans exceeding the \$90,000 construction loan limit in order to accommodate extensive rehabilitation work in compliance with recently enacted federal lead-based paint regulations.
- 2) Authorize loan-to-value ratios of up to 110% when necessary to comply with lead-based paint requirements.
- 3) For loans made under Recommendation 2, authorize the forgiveness of lead-based paint compliance costs, up to the original excess loan-to-value amount, upon resale of the property to the extent that the owner's equity at the time of resale is insufficient to cover the repayment of this amount.

**BACKGROUND:** The Home Rehabilitation Loan Program provides no-interest, deferred payment loans for the rehabilitation of owner-occupied single family homes. This program is funded with federal Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) monies, and eligible owners must have incomes within Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) income limits, currently \$42,000 for a two-person household. Of the 44 loan recipients from FY 1998 through April 30, 2001, 86% are one- or two-person households and 59% are elderly. Household incomes range from \$5,540 to \$51,184, and average \$21,582.

The program has a loan limit of \$90,000 for construction costs, as authorized by City Council in November 1997. All costs associated with the temporary relocation of the homeowner during rehabilitation, as well as all costs associated with printing, surveys, permits, termite, title and appraisal reports and recording fees, are included in the loan above the construction cost limit. The City pays the cost of architectural, engineering and associated fees outside of the loan, as part of the program's administrative costs.

**DISCUSSION:** Prior to September 16, 2000, federal regulations concerning lead-based paint abatement were implemented only when the property to be rehabilitated was constructed prior to 1978 and occupied by children under seven years of age. As the majority of participants in the City's Home Rehabilitation Loan Program are low-income elderly households without young children, very few affected properties were identified. In each case where lead-based paint was identified and children under seven occupied the property, lead tests were conducted and, in each case, lead levels were determined to be acceptable.

The recommended changes to the Home Rehabilitation Loan Program are proposed to address the extensive costs associated with mitigating lead-based paint under the new Housing and Urban Development (HUD) regulation on Lead-Based Paint Hazards In Federally Owned Housing And Housing Receiving Federal Assistance. This regulation became effective September 15, 2000, and greatly increases the City's responsibility for mitigating lead-based paint hazards in its federally-funded programs for all properties constructed prior to 1978, regardless of the age of the occupants.

The new regulations may, depending on the cost of construction in each case, significantly increase total rehabilitation costs. In rehabilitation cases where the hard construction costs exceed \$25,000, the City is required to conduct paint testing on the surfaces to be disturbed or replaced during rehabilitation, and to perform a risk assessment to include exterior painted surfaces. The City must then address all lead-based hazards identified by the paint testing or risk assessment, as well as any lead-based paint hazards created as a result of the rehabilitation work. Hazards created by rehabilitation activity may include high levels of lead dust generated from removal of windows and doors, increased lead dust levels resulting from removal of carpeting, and disturbance of peeling and flaking paint which may increase both interior and exterior lead levels.

As of April 30, staff has made nine rehabilitation loans and currently has 11 loan applications in process. Lead was found in only one of the approved cases, and was addressed satisfactorily by the original scope of work. However, of the pending cases, three have undergone lead tests to date, and all three have been found to require significant lead-based paint mitigation measures. In two of these cases, measures required to address lead-based paint are expected to cause the construction portion of the loans to exceed the \$90,000 limit, bringing the total construction costs to \$108,340 and \$105,840, respectively. In the first case, the cost of the lead-related work items (\$25,661) represents 24% of the total construction costs; in the second case, the lead-related cost (\$33,500) is 32% of the total. One of the two property owners is completing elements of the non-lead related rehabilitation work independently to reduce the overall costs of the project. In addition, staff is currently working with state and local health department officials and participating architects to minimize the fiscal

impact of the lead-based paint rehabilitation requirements, while ensuring full compliance with the new regulatory standards. However, it will not be possible to bring these loans within the \$90,000 construction cost limit. Staff is recommending that loans be allowed to exceed this limit when necessary to address lead based paint requirements, as in these two cases.

In reviewing loan applications for approval, the City has allowed a total loan-to-value ratio (taking into account the first trust and any other liens on the property) of up to 100% of after-rehabilitation costs. To complete higher cost rehabilitation cases that are resulting from enactment of the new lead-based paint regulations, it is possible that some cases may require loans in excess of the after-rehabilitation property value. Although many of the City's loans are made to elderly households who have paid off their mortgages, and program staff do not recall any instance where the loan-to-value ratio approached 100% based solely on the City's loan, it is possible that high loan-to-value ratios could occur in instances where there is a sizeable first mortgage on the property and the rehabilitation work is substantial. Staff recommends that the maximum loan-to-value ratio be increased to 110% when necessary to accommodate lead-based paint mitigation work in these limited cases. Staff believes that, over time, monthly first mortgage payments will reduce the total debt, and property value appreciation will further reduce the overall loan-to-value ratio, so that the owner will have sufficient equity to repay the City's loan upon sale of the property.

Despite the likelihood that owners who receive loans in excess of after-rehabilitation value will continue to accrue equity as mortgage balances are reduced and property values increase, it is important that the program have a mechanism for addressing situations in which the loan remains in excess of value at the time the loan is to be repaid. Staff recommends that, in such instances, the City forgive the portion of the loan in excess of the value of the property, not to exceed the original excess loan-to-value amount related to lead-based paint mitigation work.

No additional changes in regard to the City's current loan-to-value standards for loan approval or repayment requirements are recommended at this time.

**FISCAL IMPACT:** No increase in program budget is requested at this time. The program has \$1.4 million (including new program income received) available in FY 2001, and its projected new federal allocation for FY 2002, as contained in the pending One-Year Action Plan that contains the applications for federal funding, is \$521,357. Should additional funds be needed, a budget transfer will be recommended.

**STAFF:**

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